asset value plus the ROE or use allowance per diem calculated on the indexed 20 percent asset value.

b. Return on equity per diem obtained in Step B.7.

c. Incentives for both the operating and patient care costs per diems obtained in Steps C. or D. below.

d. The lower of the operating cost per diem obtained in Step B.7, the operating target per diem obtained in Step B.16., or the applicable ceiling obtained in Step B.17.

e. The lower of the patient care cost per diem obtained in Step B.7, the patient care target per diem obtained in Step B.16., or the applicable ceiling obtained in Step B.17.

21~~20~~. Multiply the sum of non-Medicare or Medicaid usual and customary charges by the inflation factor calculated in Step B.6. Divide the result by the total non-Medicare or Medicaid days.

22~~21~~. Establish the prospective per diem for a facility as the lower of the result of Step B.19 or Step B.20.

C. Quality of care and cost containment incentives for rate periods during April 1, 1983 through June 30, 1985.

1. To encourage high-quality care while containing costs, this plan provides the following:

a) Providers who receive a "conditional" licensure rating shall receive no incentive for the duration of time that the conditional licensure rating is applicable.

b) Providers that receive a "standard" licensure rating may be eligible for an incentive. For any period during which a provider has an operating cost per diem from Step B.6. below the class ceiling, an incentive of 33.33 percent of the difference between the class asset value plus the ROE or use allowance per diem calculated on the indexed 20 percent asset value.

b. Return on equity per diem obtained in Step B.7.

c. Incentives for both the operating and patient care costs per diems obtained in Steps C. or D. below.

d. The lower of the operating cost per diem obtained in Step B.7, the operating target per diem obtained in Step B.16., or the applicable ceiling obtained in Step B.17.

e. The lower of the patient care cost per diem obtained in Step B.7, the patient care target per diem obtained in Step B.16., or the applicable ceiling obtained in Step B.17.

21~~20~~. Multiply the sum of non-Medicare or Medicaid usual and customary charges by the inflation factor calculated in Step B.6. Divide the result by the total non-Medicare or Medicaid days.

22~~21~~. Establish the prospective per diem for a facility as the lower of the result of Step B.19 or Step B.20.

C. Quality of care and cost containment incentives for rate periods during April 1, 1983 through June 30, 1985.

1. To encourage high-quality care while containing costs, this plan provides the following:

a) Providers who receive a "conditional" licensure rating shall receive no incentive for the duration of time that the conditional licensure rating is applicable.

b) Providers that receive a "standard" licensure rating may be eligible for an incentive. For any period during which a provider has an operating cost per diem from Step B.6. below the class ceiling, an incentive of 33.33 percent of the difference between the class ceiling and the operating cost per diem from Step B.6 shall be used in computing the provider's prospective per diem rate in Step B.19.c. This incentive shall not be greater than 20 percent of the class ceiling amount.

2. Providers with a "superior" licensure rating may be eligible for an incentive, in either the operating cost or patient care cost area or both, for the period of time during which they have a superior licensure rating. The incentives shall be determined as follows:

   a) If the operating cost per diem from Step B.6 is below the class ceiling, an incentive of 66.67 percent of the difference between the class ceiling and the operating cost per diem from Step B.6 shall be used in computing the provider's reimbursement rate in Step B.19c. This incentive shall not be greater than 20 percent of the class ceiling.

   b) If the patient care cost per diem from Step B.6 is below the class ceiling, an incentive of 10 percent of the difference between the class ceiling and the patient care cost per diem from Step B.6 shall be used in computing the provider's reimbursement rate in Step B. 19c. This incentive shall not be greater than 5 percent of the class ceiling.

D. Quality of care and cost containment incentives for rate periods beginning on or after July 1, 1985 through June 30, 1996.

1. To encourage high-quality care while containing costs, this plan provides for the following incentive payments. Incentives shall be paid for the current rate semester period based on a weighted average of the incentive amounts calculated using the licensure ratings that were in effect in the rate semester period 1 year prior. For operating costs, the operating cost

per diem shall be less than the class ceiling and licensure ratings other than conditional shall have been received. For patient care costs, the patient care cost per diem shall be less than the class ceiling and a superior licensure rating must have been received.

2. The calculation of the per diem incentive amounts are as follows:

(a) Determine the number of days during the 6-month period 1 year prior to the rate semester for which the facility held each of the three possible licensure ratings: superior, standard, and conditional.

Example: For the rate semester January 1, 1986 through June 30, 1986, the 6-month period 1 year prior is January 1, 1985 to June 30, 1985. During that prior period, the provider's licensure ratings were:

RATING	PERIOD	DAYS
Superior	1/1/85 - 1/31/85	31
Conditional	2/1/85 - 3/31/85	59
Standard	4/1/85 - 6/30/85	91
		181

(b) For the rate periods beginning on or after January 1, 1988, if the lower of the operating cost per diem from Step B.6 and the operating target per diem from Step B.16. is less than the class ceiling, calculate the positive difference. If the lower of the two per diems is greater than the ceiling, then skip c. through e. below.

(c) Multiply the difference in (b) above by the product of .6667 times the proportion of days in the period 1 year prior that a superior licensure rating was held. Using the example in (a) above, this product would be: (.6667) x (31/181). For rate periods beginning July 1, 1995, multiply the difference in (b) above by the product of

.64 times the proportion of days in the period 1 year prior that a superior licensure rating was held. Using the example in (a) above, this product would be : (.64) x (31/181).

(d) Multiply the difference in (b) above by the product of 1/3 times the proportion of days in the period 1 year prior that a standard licensure rating was held. Example: (.3333) x (91/181). For rate periods beginning July 1, 1995, multiply the difference in (b) above by the product of .32 times the proportion of days in the period 1 year prior that a standard licensure rating was held. Example: (.32) x (91/181).

(e) Establish the weighted operating cost incentive per diem as the lesser of: the sum of the results of (c) and (d) above; or 20 percent of the class operating cost ceiling for rate periods prior to January 1, 1988, or 15 percent of the class operating reimbursement ceiling for rate periods beginning on or after January 1, 1988, or 10 percent of the class operating reimbursement ceiling for rate periods beginning on or after July 1, 1995.

(f) For rate periods prior to January 1, 1988, if the patient care cost per diem from Step B.6 is less than the class ceiling, calculate the positive difference. If the patient care cost per diem is greater than the class ceiling, skip (g) and (h) below.

(g) Multiply the difference in (f) above by the product of (.1) times the proportion of days in the period one year prior that a superior licensure rating was held. Example: (.1) x (31/181).

(h) Establish the weighted patient care cost incentive as the lesser of: the result of (g) above; or 5 percent of the class patient care cost ceiling.

(i) Establish the total incentive payment as the sum of (e) and (h), if applicable.

(j) An example of the complete calculation is shown here, based upon the following information:

(1) Current rate semester period: January 1, 1986 to June 30, 1986;
Rate semester period 1 year prior:
January 1, 1985 to June 30, 1985;

(2) Licensure ratings in effect during January 1, 1985 to June 30, 1985:

RATING	PERIOD	DAYS
Superior	1/1/85 - 1/31/85	31
Conditional	2/1/85 - 3/31/85	59
Standard	4/1/85 - 6/30/85	91
		181

(3) The operating cost per diem is $3.00 below the class ceiling.

(4) The patient care cost per diem is $10.00 below the class ceiling.

The incentive for the current rate semester period, January 1, 1986 - June 30, 1986 is:

RATING:	**OPERATING**	
Superior	$3.00 x .6667 x 31/181=	$0.3426
Conditional	N/A x x 59/181=	N/A
Standard	$3.00 x .3333 x 91/181=	.5027

Total Operating Incentive		$0.8453
RATING:	**PATIENT CARE**	
Superior	$10.00 x .1 x 31/181=	$0.1713
Conditional	N/A x 59/181=	N/A
Standard	N/A x 91/181=	N/A
Total Patient Care Incentive		$0.1713
Total Incentive		$1.0166

This total incentive of $1.0166 is added in the rate calculation in V.B.19.c.

(k) For rate periods beginning on or after January 1, 1988, calculate each facility's reimbursement rate for patient care costs as described in V.B. 19.e. Multiply this per diem by .03 times the proportion of days in the rate period one year prior that a superior licensure rating was held.

Example: (.03) X 31/181). The result of this calculation will represent the quality of care incentive to which the provider is entitled. This incentive is to be included in the provider's total reimbursement rate in place of the incentive determined in V.D.2.(h).

(l) For rate periods beginning on and after July 1, 1993, incentive payments shall be prorated based upon a facility's Medicaid utilization percentage, except as modified in (m) below. Facilities with 90% or greater Medicaid utilization shall receive 100% of their incentives. Facilities with 20% or less Medicaid utilization shall receive no incentives. Facilities between 20% and 90% Medicaid utilization shall have their incentives prorated by multiplying their incentives by the percentage calculated in the following formula:

$$100 \times \frac{[\text{Medicaid Utilization \%} - 20\%]}{70\%}$$

(m) For rate periods beginning July 1, 1995, facilities with 65% or less Medicaid utilization shall receive no operating incentives. Facilities between 65% and 90% Medicaid utilization shall have their operating incentives prorated by multiplying their operating incentives by the percentage calculated in the following formula:

$$100 \times \frac{[\text{Medicaid Utilization \%} - 65\%]}{25\%}$$

E. 1. FRVS for existing facilities at October 1, 1985.

a. Each existing facility, at October 1, 1985, shall have an FRVS rate established for capitalized tangible assets based upon the assets' acquisition costs at the last dates of acquisition prior to July 18, 1984. Facilities purchased after July 18, 1984 and not enrolled in the Medicaid program prior to the purchase or facilities constructed after July 18, 1984 and enrolled in the program shall have an FRVS rate established on the basis of the last acquisition costs prior to enrolling in the Medicaid program. The acquisition costs shall be determined from the most current depreciation schedule which shall be submitted by each provider. These acquisition costs, including the cost of capital improvements and additions subsequent to acquisition, shall be indexed forward to October 1, 1985 by a portion of the rate of increase in the Florida Construction Cost Inflation (FCCI) Index based on the Dodge Construction Index. The change in the FCCI Index from September, 1984 to March, 1985 shall be used to project the FCCI

Index for October 1, 1985, with no subsequent retroactive adjustment. The costs of land, buildings, equipment, and other capital items allowable for Medicaid reimbursement per HCFA-PUB.15-1 (1993) such as construction loan interest expense capitalized, financing points paid, attorneys fees, and other amortized "soft" costs associated with financing or acquisition shall be included in determining allowable acquisition costs subject to indexing. Property taxes (which excludes sales tax on lease payments) and property insurance expenses shall not be included in the calculation of the FRVS rate, but shall be reimbursed prospectively, based on actual costs incurred and included in the total property rate. For FRVS rates calculated after October 1, 1985 but prior to July 1, 1991, the 6-month change in the FCCI Index based on the Dodge Construction Index shall be determined for adjusting FRVS rates. For rates effective on or after July 1, 1991, the FCCI Index based on the DRI/McGraw - Hill Health Care Costs, Consumer Price Index All Urban All Items South Region shall be used.

FRVS rates shall be adjusted for inflation on each January 1 and July 1, using the change in the FCCI Index for the most recent 6-month period published prior to the rate semester. FRVS rates shall be adjusted per subsections f. and j. below for changes in interest rates on capital debt instruments and for capital additions or improvements on each January 1 and July 1. (See Appendix B for computation of the index).

b. A single FCCI Index, based upon the average of the Dodge Construction indicies for the six cities in Florida for which an index is published, shall be used through June 30, 1991 and the most recently published DRI Health Care Costs All Urban All Items South Region Index quarterly indices for July 1, 1991 and thereafter. The rate of increase in the FCCI Index, for purposes of indexing FRVS rates, shall be limited to a 3 percent semi-annual increase; however, during semesters when the increase in the index is greater than 3 percent, a credit, calculated as the actual increase minus 3 percent, shall be carried forward for future periods and added to the increase in the index, up to a maximum of 3 percent, when the actual future increases in the index are less than 3 percent. For example, if the increase in the index is 4 percent in Period 1, 3 percent shall be used and a credit of 1 percent shall be carried forward; then, if the increase in the index is 2 percent in Period 2, a 3 percent rate of indexing shall be used, by adding the 1 percent credit to the actual 2 percent increase. If more than 2 percent credits were available, a maximum of 3 percent rate of indexing would be used, and the remaining credits would again be carried forward to future periods. The credits shall carry forward indefinitely until they are reduced by applying them to periods during which the rate of increase in the FCCI Index is less than 3 percent. The credits shall accrue by individual facility, so that any facility entering the program in a period where the increase in the FCCI Index is less than 3 percent shall not benefit from credits accrued during prior periods by other facilities.

c. The portion of the FCCI Index increase used to index asset valuation each year shall vary with the number of years the facility participated in the program since January 1, 1972. For the first 10